

Economic Process II

Note: The following best practices syllabus was created using a compilation of the teaching strategies of the Henry Hazlitt Center professors whose students obtained the best performance results per theme including corresponding concepts. Mastery was determined using average test scores per theme, and was compared with teacher evaluation scores based on surveys completed by students.

THEME AND CONCEPT LIST

1. **Government**
 - a. Origin and functions
2. **State budget**
 - a. Expenditure
 - b. Income
 - i. Taxes
 - ii. Other sources (debt)
 - c. Budget balance
 - d. Deficit
3. **Money**
 - a. Origin and evolution
 - b. Cryptocurrencies
 - c. Demand for money
 - d. Supply for money
4. **Commercial banking**
5. **Free banking**
6. **Central banking**
 - a. Reserve requirement rate
 - b. Open market operations
 - c. Leading interest rate
7. **Monetary theories on money and credit**
8. **Inflation theory**
 - a. Causes and effects of inflation
9. **The economic cycle**
10. **Market intervention**

- a. Subsidies
- b. Labor market
- c. Intervention costs

11. External Sector

- a. Payment balance
- b. Exchange rates
- c. Customs barriers and others
- d. Commercial agreements
- e. Dumping

12. Socialism

- a. Origins
- b. Impossibility of economic calculation

13. The ethics of economics

DESCRIPTION BY THEME

1. Government

SUMMARY

In this subject, students will study the origins of government and learn the expected functions of government according to free-market theory. Emphasis is made on the importance of minimizing the functions of government, and on studying where they should be limited in order to ensure peaceful coexistence between individuals in society.

MAIN OBJECTIVES

- To understand the origins of government
- To comprehend the importance of minimizing government function
- To identify the importance of government's functions in free market

METHODOLOGY

- Discussion and revision of relevant readings.
- Study on current candidates and their government plans.
- Study on government income sources and task distribution.

REFERENCES: READINGS AND LITERATURE

- Heyne: The Economic Way of Thinking. 12ed. Chapter 11, Markets and Government. pp 255 - 262.

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral

2. State budget

SUMMARY

Students will analyze the composition of the state budget in relation to government expenditure by ministries or state agencies. Different types of taxes will be studied, including their effects on investment. Different financial resources for fiscal deficit are analyzed.

MAIN OBJECTIVES

- To learn the accounts where government expenditure occurs
- To understand relationships between government expenditure and income, both in terms of planned and executed budget, and their importance in the economic development of a nation
- To understand how each tax affects economy

METHODOLOGY

- Discussion and revision of relevant readings
- Discussion round for concepts
- Budget group analysis for each of the government ministries in Guatemala

REFERENCES: READINGS AND LITERATURE

- Heyne: The Economic Way of Thinking. 12ed. Chapter 11, Markets and government. pp 263 - 275.
- Ayau: El Proceso Económico. Cap 11, Impuestos, pp 1 - 17.
- Mises: Acción Humana. El Intervencionismo Fiscal, pp. 869 - 875.

EVALUATION METHOD

- Concept mastery evaluation, written
- Presentation of an assignment on the effect of tax application

3. Money

SUMMARY

In this unit, students will study the origin and evolution of money over time. They will identify instances of direct exchange (ie.trade), and instances of indirect exchange. Characteristics of currencies will be defined, as well as the functions of money and its importance in successful trade, a cornerstone of progress in human society.

In the second part of this unit, the course will focus on the different mechanisms that determine the price of money, as well as its purchasing power. They will review demand and supply of goods and services, and understand the dynamics of savings. They will comprehend the meaning of fiat and fiduciary money.

MAIN OBJECTIVES

- To understand the evolutionary process behind the origin of money
- To understand the functions of money and currencies
- To analyze the influence changes in demand and supply affect purchasing power

METHODOLOGY

- Timeline creation - Origin of money

- Video analysis: Functions of money per merchandise type - Solving the question: For each type, does money meet its purpose?

REFERENCES: READINGS AND LITERATURE

- Menger: Principios de Economía. Ch. VII, Teoría del dinero.
- Cole: Dinero y Banca. UFM, 7a ed., 2006. Ch. 1, Naturaleza, funciones y origen del dinero. pp 1 - 21.
- Ayau: El Proceso Económico. Ch. 7, Dinero. pp 1 - 10.
- Ayau: El Proceso Económico. Ch. 7. El factor multiplicador. pp 7 - 19.
- Cachanosky: Consideraciones sobre la Tasa de Interés. Parte 1.

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral

4. Commercial banking

SUMMARY

In this section, students will study the origins of commercial banking, its operations and principles, and they will learn to establish a difference between it and other financial intermediaries.

Students will also analyze how, through bank multipliers determine secondary currency generation, and why banks are intermediaries between investors and savers.

MAIN OBJECTIVES

- To understand the functioning of central banking
- To calculate the creation of secondary currency on the basis of set reserve requirements
- To understand the role of banks in market

METHODOLOGY

- Discussion and revision of relevant readings.
- Investigation on active banks in Guatemala - One bank per student, 5-minute presentations.

REFERENCES: READINGS AND LITERATURE

- Cole: Dinero y Banca. UFM, 7a ed., 2006. Ch. 2, La banca comercial. pp 25 - 41.
- Hayek: La libre elección de moneda.
- Ulrich Fernando: Bitcoins.

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral

5. Free banking

SUMMARY

In this unit, the advantages of a free banking system, defined by the existence of several banks competing for adoption of their currency, is studied. An analysis on cryptocurrencies and their origins and reasons for persistence in markets is conducted.

MAIN OBJECTIVES

- To understand how a free banking system works
- To analyze advantages and disadvantages of cryptocurrencies

METHODOLOGY

- Conducting research on a determinate country in relation to different banks that exist or have existed, and their functions
- Visual - Video-analysis on the mechanism of bitcoin

REFERENCES: READINGS AND LITERATURE

- Friedrich von Hayek: La libre elección de moneda
- Ulrich Fernando: Qué es y cómo funcionan Bitcoins, cap. 2

REFERENCES: AUDIOVISUAL RESOURCES

- 7 lessons I Learned about Investing in Bitcoin.
<http://newmedia.ufm.edu/gsm/index.php?title=Demeesterbitcoin>

EVALUATION METHOD

- Flux diagram on Bitcoin effects
- Teamwork - Enumeration of free banking advantages

6. Central banking

SUMMARY

This subject reviews the evolutionary history of central banking, the primary emission of money, and the consequences of monopoly. The functions of central banks throughout history are analyzed, as well as its effects in market. Monetary, exchange rate, and credit policies that interfere with market development are studied.

MAIN OBJECTIVES

- To understand the historical evolution of banking systems
- To establish the effects on the market secondary to the functions of central banks
- To understand the effects of monetary, exchange rate, and credit policies

METHODOLOGY

- Discussion and revision of relevant readings.

- Visit to the Bank of Guatemala - Analytic essay assignment.
- Debate: In favor or against central banking.

REFERENCES: READINGS AND LITERATURE

- Julio Cole: Dinero y Banca. UFM, 7a ed., 2006. Ch. 3, La banca central. pp 45 - 61.

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral

7. Monetary theories on money and credit

SUMMARY

Study on how different philosophies have represented monetary theory in relation to both currency and credit. Emphasis will be made on studying the origins of the Banking School and Currency School.

MAIN OBJECTIVES

- Analysis on different themes behind each school of thought.
- Understanding on how posterior schools of thought have determined study of monetary theories.

METHODOLOGY

- Discussion and revision of relevant readings.
- Group presentation - Function of banks and credit.
- Comparative timeline on credit policy since 1930 to actuality.

REFERENCES: READINGS AND LITERATURE

- Murray N. Rothbard, Historia del pensamiento económico, Tomo II

- Murray N. Rothbard: Man, Economy, and State, with Power and Market. 2009.
- Heyne: The Economic Way of Thinking. 12ed. Chapter 14, Money. pp 352 - 357.
- <https://mises.org/library/history-monetary-and-credit-theory>
- <http://juanramonrallo.com/2012/11/leccion-4-los-grandes-debates-monetarios-en-la-inglaterra-del-s-xix/>
- <http://www.sintetia.com/daniel-fernandez-ufm-market-trends-la-politica-suele-ser-impredecible-y-peligrosa-para-las-recuperaciones-economicas/>
- <http://juanramonrallo.com/2015/09/free-banking-theory-versus-the-real-bills-doctrine-reply-to-larry-white/>

REFERENCES: AUDIOVISUAL RESOURCES

- El problema fundamental de la banca financiera. Daniel Fernandez. <http://newmedia.ufm.edu/gsm/index.php/Fernandezbancafinanciera>.
- Conversation on free banking theory. <https://www.youtube.com/watch?v=PYaIRa7dZGA>
- Escuela monetaria vs. escuela bancaria. http://www.youtube.com/watch?v=K9tBwWg_MYw

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral

8. Inflation theory

SUMMARY

Students will understand how increases in money supply without corresponding changes in demand cause inflation. Students and teachers analyze short term and long term effects of inflation.

MAIN OBJECTIVES

- To analyse the causes and consequences of inflation

- To understand which alternatives help reduce inflation

METHODOLOGY

- Discussion and revision of relevant readings
- Inflation game: (A market is simulated. During the first round, there are few monetary units and a set of goods. In the second round, the quantity of monetary units increases and the same set of goods is maintained. Change in the price of money is compared).

REFERENCES: READINGS AND LITERATURE

- Cachanosky: Reflexiones sobre la inflación.
- Ayau: El Proceso Económico. Ch. 7, Dinero. pp 7 - 22.
- Cachanosky: Consideraciones sobre la tasa de interés.
- Mises: Human Action. 8a ed, 2007. Ch. XX, El interés, la expansión crediticia, y el ciclo económico.
- Garrison: Estructura del capital.
- Johan Norberg: How the right to affordable housing created the bubble that crashed the world economy. After the Welfare State. pp 97 - 105.
- Hans Sennholz. The Great Depression.

REFERENCES: AUDIOVISUAL RESOURCES

- Video: Aumento de la oferta del dinero.
<http://anarcocapitalista.com/JHSLecciones19.htm>
- Video: Variaciones del poder adquisitivo.
<http://anarcocapitalista.com/JHSLecciones19.htm>
- Capsule: Crédito, interés y banca.
[http://newmedia.ufm.edu/gsm/index.php/Proceso Econ%C3%B3mico por el Dr. Manuel Ayau](http://newmedia.ufm.edu/gsm/index.php/Proceso_Econ%C3%B3mico_por_el_Dr._Manuel_Ayau)

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral

9. The economic cycle

SUMMARY

In this subject, students will begin with an exploration of the causes of economic cycles. An initial increase in monetary supply is directed to the credit market, causing credit expansion. This will, in turn, cause the start of an economic cycle, where individuals will incur in investments they wouldn't otherwise have made. Artificial economic growth (bubble) that is not sustainable, causes enterprise bankruptcy and unemployment. Different views on economic cycle theory are studied, mainly the differences between Keynesian and Austrian school theories.

MAIN OBJECTIVES

- To understand the causes of economic cycles
- To understand the concept of artificial interest rates and its distortion effect on investment
- To understand how different market interventions worsen economic crises

METHODOLOGY

- Discussion and revision of relevant readings and Austrian Economic principles
- Historical analysis: To construct a timeline on different economic crisis throughout history

REFERENCES: READINGS AND LITERATURE

- Mises: Human Action. 8a ed, 2007. Ch. XX, El interés, la expansión crediticia, y el ciclo económico. pp. 681 - 693.

EVALUATION METHOD

- In-class discussion and debate
- Timeline discussion and evaluation

10. Market intervention

SUMMARY

The history of mercantilism and its effects over time are overviewed. A deep analysis on how different interventions of the market by government have undesired consequences in the economy.

MAIN OBJECTIVES

- To understand the economic effects of different interventions in market
- To understand the difference between free pricing and an intervened market

METHODOLOGY

- Discussion and revision of relevant readings.
- Case studies on mercantilism.
- Case studies on price control and minimum wage placement.

REFERENCES: READINGS AND LITERATURE

- Murray N. Rothbard: Historia del pensamiento económico, El Mercantilismo.
- Ayau: El Proceso Económico. Ch. 10, El mercado interferido. pp 1 - 14.

REFERENCES: AUDIOVISUAL RESOURCES

- Video: El intervencionismo siempre genera corrupción.
<http://anarcocapitalista.com/JHSLecciones39.htm>
- Capsule: El mercado interferido.
[http://newmedia.ufm.edu/gsm/index.php/Proceso Econ%C3%B3mico por el Dr. Manuel Ayau](http://newmedia.ufm.edu/gsm/index.php/Proceso_Econ%C3%B3mico_por_el_Dr._Manuel_Ayau)
- Capsule: Preguntas sobre el mercado interferido.
[http://newmedia.ufm.edu/gsm/index.php/Proceso Econ%C3%B3mico por el Dr. Manuel Ayau](http://newmedia.ufm.edu/gsm/index.php/Proceso_Econ%C3%B3mico_por_el_Dr._Manuel_Ayau)
- Video: La restricción de la producción.
<http://anarcocapitalista.com/JHSLecciones39.htm>

- Video: Intervención de los precios.
<http://anarcocapitalista.com/JHSLecciones39.htm>

EVALUATION METHOD

- In class presentation on researched history of economic intervention
- Worksheet on price intervention

11. External sector

SUMMARY

This subject approaches the dilemma of exchange between individuals in different countries, as a reflection of exchange within a certain country. The composition of payment balance is studied, as well as the way exports and imports affect exchange rates between currencies of different countries.

Customs barriers and other barriers to international trade are studied, as well as their effects on commerce. Students will analyze the ways in which trade agreements and other forms of intervention can destruct comparative advantages.

MAIN OBJECTIVES

- To understand the components of payment balance
- To analyze the effects of government intervention in international trade
- To understand how exchange rates vary in relation to exports and imports, as well as by exchange rate policies

METHODOLOGY

- Discussion and revision of relevant readings.
- Concept integration on discussion rounds - topic per student with a final integrations.

REFERENCES: READINGS AND LITERATURE

- Ayau: Un Juego que no Suma Cero. Ch.s V - XI. pp 41 - 60.
- Hazlitt: Economía en una Lección. Ch. 10, ¿A quién protegen los aranceles?. pp 34 - 41.
- Summers: Lo que se ve y lo que no se ve.
<http://www.biblioteca.cees.org.gt/topicos/web/topic-455.html>

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral
- Product sale game - Demonstration of exchange rate policy, the Schneider technique, effects of intervention in exchange rates and customs barriers

12. Socialism

SUMMARY

In this subject, students will study the consequences of deliberate economic order in society, and the disappearance of entrepreneurs in the absence of market prices that reflect individuals' distinct value allocations. Consequences of the impossibility of economic calculation will be understood, as well as the importance of human incentives and property right guarantees.

MAIN OBJECTIVES

- To understand the functioning of socialism
- To understand why market pricing is absent, and the impossibility of human calculation
- To understand the implications caused by central planners' lack of understanding of the reality of dispersed knowledge

METHODOLOGY

- Discussion and revision of relevant readings.
- Conceptual map on the social function of private property.

- Case studies on the impossibility of economic calculation.

REFERENCES: READINGS AND LITERATURE

- Ayau: El Proceso Económico. La función social de la propiedad privada. pp 1 - 12.
- Mises: Human Action. 8a ed, 2007. Ch. XXVI, La imposibilidad del cálculo económico bajo el socialismo. pp 823 - 842.

REFERENCES: AUDIOVISUAL RESOURCES

- Video: El socialismo como error intelectual.
<http://anarcocapitalista.com/JHSLecciones36.htm>
- Video: Imposibilidad del socialismo, desde la perspectiva social.
<http://anarcocapitalista.com/JHSLecciones36.htm>
- Video: La imposibilidad del socialismo, desde la perspectiva del órgano rector.
<http://anarcocapitalista.com/JHSLecciones36.htm>

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral

13. The ethics of economics

SUMMARY

In this subject, students and professor will overview the ethical foundations of a free market economy. The relationship between capitalism and individual rights will be studied. Libertarianism will be understood, not as a designed model for social organization, but as a necessary result of individuals' freedom of action under general norms of conduct.

MAIN OBJECTIVES

- To review the ethical foundations of free market economy
- To establish a relationship between moral norms that define human conduct
- To understand libertarianism as a result of the existence of norms in a society that allows individuals to act independently
- To review the natural and logical origin of the rules that determine social cooperation

METHODOLOGY

- Discussion and revision of relevant readings.
- Case studies on ethics in economy.

REFERENCES: READINGS AND LITERATURE

- Ayau: El Proceso Económico. Ch. 13, La ética de la economía. pp 1 - 13.

REFERENCES: AUDIOVISUAL RESOURCES

- Video: Social ethics theory. <http://anarcocapitalista.com/JHSLecciones43.htm>

EVALUATION METHOD

- In-class discussion and debate
- Concept evaluation, written and oral